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INTRODUCTION

The City Charter section 805(a) requires the City Auditor to perform audits of the City's fiscal transactions. As part of our Charter required review of the City's payroll transactions, we examined the City's overtime expenditures.

With the City's current financial difficulties and the ever-pressing demand for services, overtime has become an increasingly critical issue. Recent City hiring restrictions have increased workload pressures on several City programs. As a result, overtime has, in some instances, become a short-term remedy with potentially costly long-term financial implications. In this initial report on the City's use of overtime, we provide information that serves as a basis for understanding the magnitude of the City's overtime situation and its financial implications for the City.

BACKGROUND

Factors Governing Overtime

The City's overtime situation involves a number of complex factors which require employees to work hours in excess of the normal work schedule. Legal and contractual requirements govern the application of overtime rules. The specific terms addressing overtime may vary for each of the 14 employee representation units. In addition, the terms in a Memorandum of Agreement (MOA) may differ from the provisions of the Federal Fair Labor Standards Act (FLSA). Different operating environments throughout the City also create additional variables to be considered when examining overtime. For the purpose of this analysis, we will use the most generally applicable rules to avoid becoming too technical and detailed. However, when necessary, we will provide additional information in order to facilitate a more complete understanding of an overtime issue.

Compensation for hours worked in excess of normally scheduled hours is usually handled in one of three ways: 1) paid overtime, 2) compensatory time (comp-time), or 3) executive leave. This study does not address executive leave since it is a unique subject not commonly associated with the City's overtime costs.

Paid Overtime

Overtime is generally compensated at a rate of one and one-half times the employee's hourly rate for each hour of overtime worked. In certain instances, an employee is paid twice his or her hourly rate for overtime hours worked in excess of twelve continuous work hours. The payment of overtime is governed by the related MOA, FLSA regulations, and the City's budget restrictions. The total amount of overtime that a Department or program can pay is set forth in the City's operating budget and is controlled as a separate budgeted line item in the City's accounting system. Subject to FLSA restrictions and budget considerations, employees may either request payment for the overtime or receive credit for compensatory time off.

Compensatory Overtime

Instead of receiving an additional payment for overtime worked, an employee may be compensated by being allowed to take paid time off at a later date. In most instances, an employee will receive one and one-half hours of compensatory time off for every hour of overtime worked. Other variations exist depending on the specific situation and the related MOA.

Unfunded Liability

Comp-time is essentially a credit for overtime worked, that is to be taken-off or paid-off later. Therefore, comp-time may or may not result in an actual additional cost to the City. In

these instances where an employee is able to take comp-time off without other employees having to work overtime in order to cover for the employee, there is no direct additional cost to the City. However, if the absorption of the employee's duties by other employees creates the need for additional overtime, then an additional cost or liability is created. Comp-time is usually required to be paid off if the comp-time could not be used within one year of occurrence. When this occurs, the cost of comp-time essentially is recognized one year after the liability is incurred.

However, for employees represented by the Police Officers Association, the comp-time hours remain credited to the employee until taken off or the employee terminates or retires. Many Police Department employees have accumulated significant comp-time balances (as discussed later in this report). This prolonged accumulation of comp-time creates a substantial unfunded liability for the City since the costs for this overtime are not provided for on an on-going basis in the Department's operating budget. At some point in the future, when the employee retires or terminates or the Administration decides to reduce the liability, the City will be required to payoff these comp-time liabilities. Further, since currently accumulated comp-time hours will most likely be paid off several years from now, the ultimate cost to the City could be substantially higher because of ensuing employee promotions or pay increases. Specifically, when a Police Department employee retires or otherwise terminates, the City will pay off the

employee for his or her accumulated comp-time hours at his or her hourly pay rate at the time of termination. The City makes this payment regardless of when the employee earned the comp-time or what his or her hourly pay rate was at the time the comp-time was earned. These additional costs may significantly impact future funding of City operations.*

Causes: Discretionary vs. Mandated

Within the City's operations, there are many circumstances resulting in overtime. Generally, overtime occurs when an employee has to work additional hours in order to accomplish certain job tasks. In addition to this form of overtime, there are some instances of mandated overtime. Examples of mandated overtime include:

1. Stand-By Pay - Certain MOA's require overtime be paid to employees that remain available to respond to emergencies while off duty. This overtime can be compensated by paid overtime or compensatory time. To a certain extent, this overtime can be measured and adequately provided for in the budget.
2. Fire Department Minimum Staffing - The Fire Fighter's MOA requires a minimum staffing level. To comply with this requirement, the Fire Department may be required to enlist an employee to work overtime to fulfill the staffing requirement.

It should be noted that mandated overtime is not directly controllable within the current framework of the City's working environment.

* A currently proposed change in the way municipalities account for comp-time liabilities may also affect future City operations (See Appendix A)

SCOPE AND METHODOLOGY

Source Of Data

For our initial review of the City's use of overtime, we analyzed payroll data from the City's payroll year ended December 26, 1987. With the assistance of the City's Information Systems, Finance and Personnel Departments, we were able to extract and review selected pertinent information in a variety of ways to highlight different situations involving overtime.

For this review, we extracted data pertaining to the levels of overtime worked for both pay and compensatory time. Both must be collectively analyzed for a complete picture of the City's overtime situation. In addition, we reviewed data on the City's liability for employee comp-time balances.

Data Limitations

It should be noted that the results of our analysis were dependent upon the manner in which data was maintained in the City's payroll system. In some instances, overtime data was not always available to meet our analytical needs. However, as described below, we were able to perform additional calculations or establish certain premises to satisfy ourselves as to the validity and reliability of the information.

Data For Transferred Employees

Employees who transferred during 1987 may slightly distort the department totals shown in this report. When an employee transfers from one City department to another, any paid overtime or comp-time for that employee is also transferred. We accumulated departmental overtime data based on those employees working in the department at the end of the year. Therefore, it is possible that the overtime shown for an employee in one department was really worked in another department and vice versa. In our opinion, this factor should have only a minor effect on a Department's overall results.

Estimate Of Overtime Hours Worked For Compensatory Time

The City's payroll system accumulates the hours credited for compensatory time in lieu of paid overtime, but does not accumulate the number of overtime hours actually worked for the comp-time. In most instances, employees are credited with one and one-half hours of comp-time for each hour of overtime worked. However, in some cases, the employee may be credited with comp-time at either straight time or double time. For example, employees who are normally scheduled for a day off on a City-recognized paid holiday are credited with comp-time equal to the number of hours normally scheduled for a work day. This results in an employee essentially receiving a

substitute day off at a later date. Further, for some employees, overtime worked in excess of twelve continuous hours is compensated at double time, either for pay or comp-time hours. The payroll system does not differentiate between comp-time hours for these situations versus normal comp-time situations. Accordingly, because we estimated the number of comp-time hours worked by dividing comp-time hours credited by 1.5, our estimate will be off to the extent double or straight time comp-time hours were earned.

Estimated Value Of Comp-Time Hours Worked

To evaluate the overtime for comp-time together with the overtime for pay, we estimated the value of the comp-time credited by applying the respective employee's hourly rate to the employee's number of comp-time hours credited. By using this methodology and combining our estimate of the value of overtime worked for comp-time with the actual overtime paid, we were able to estimate the total value of the overtime incurred during 1987. It should be noted that this estimate of total overtime value may not be fully realized to the extent that comp-time hours are subsequently taken off with no additional overtime or comp-time being earned as a result. However, to the extent comp-time hours are allowed to accumulate and are not paid off for several years, our estimate of total overtime will be more than fully realized.

Ratio Used For Analysis

To provide a basis for comparing the Departments' overtime occurrences, we calculated a ratio of the Departments' overtime value to its regular pay exclusive of payments made to contract employees. By using this ratio as an indicator of the level of overtime occurrence, any differences in department sizes should be addressed. In addition, the use of this overtime-to-regular pay ratio also standardizes comparisons among employees with varying rates of pay.

STUDY RESULTS

CITY EMPLOYEES EARNED OVERTIME VALUED AT \$10,223,822 DURING 1987

During 1987 the City paid \$3,913,844, for 175,644 overtime hours worked for pay. In addition, City employees were credited with 343,521 hours of comp-time worth \$6,309,978. The total value of all overtime worked in 1987 was \$10,223,822. Also, in accordance with related memorandums of agreement, \$431,694 was paid out for aged comp-time that was not taken off within one year of occurrence. Police Department employees earned the majority of 1987 overtime.

TABLE I compares pertinent overtime statistics for 1986 and 1987.

TABLE I

COMPARISON OF PERTINENT OVERTIME STATISTICS FOR 1986 AND 1987

<u>Overtime Item</u>	<u>1986</u>	<u>1987</u>	<u>Percent Increase (or) (Decrease)</u>
Total Overtime Hours	217,928	175,644	(19.4%)
Total Comp-Time Hours Credited	341,174	343,521	0.7%
Total Paid Overtime	\$4,586,987	\$3,913,844	(14.7%)
Total Value Of Comp- Time Earned	\$6,095,669	\$6,309,978	3.5%
Paid For Aged Comp-Time	\$ 374,490	\$ 431,694	15.3%

Departments With Highest Occurrence Of Overtime

One objective of our analysis was to identify the City Departments that had incurred the highest levels of overtime. To compare overtime incurred between departments of different sizes, we calculated a ratio of each department's overtime value to its regular earnings exclusive of payments to contract employees. TABLE II summarizes the ten departments with the highest overtime ratios in 1987.

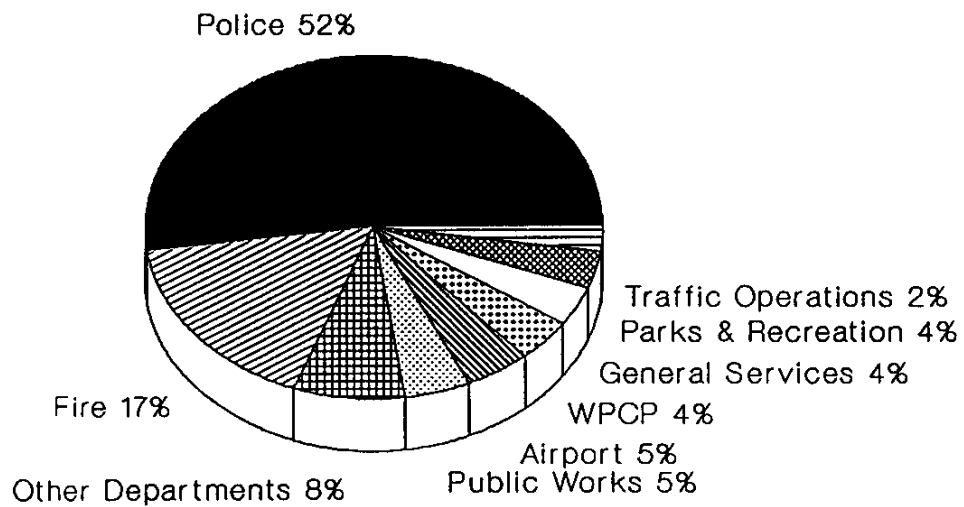
TABLE II
SUMMARY OF THE TEN
DEPARTMENTS WITH THE HIGHEST
OVERTIME RATIOS IN 1987

<u>Department</u>	<u>Overtime Hours</u>	<u>Comp-Time Hours</u>	<u>Total Overtime Hours</u>	<u>Overtime Value</u>	<u>Ratio Of Overtime To Regular Pay*</u>
Police	25,359.5	157,809.5	183,169	\$5,322,394	10.8%
Airport	15,230.8	9,497.7	24,728	472,840	9.0%
Office of Policy Analysis	240.0	45.1	285	5,962	8.7%
Fire	73,178.3	4,629.8	77,808	1,736,790	6.2%
Traffic Operations	6,137.8	2,126.5	8,264	235,008	6.0%
Water Pollution Control Plant (WPCP)	8,507.5	7,663.6	16,171	403,818	4.9%
General Services	7,211.5	8,588.8	15,800	375,715	4.9%
Public Works	14,750.0	4,044.3	18,794	473,212	3.9%
Convention and Cultural Facilities	626.5	1,538.1	2,165	41,729	3.6%
Parks and Recreation	8,376.5	12,260.1	20,637	365,316	2.9%

* Regular pay does not include payments made to contract employees.

The following chart displays the percentage of City overtime by department in 1987.

**1987 OVERTIME BY DEPARTMENT
IN PROPORTION OF TOTAL OVERTIME VALUE**



Appendix B provides a listing of all the departments in descending order of their percent of total City overtime in 1987.

STUDY RESULTS

500 CITY EMPLOYEES EARNED OVERTIME WORTH MORE THAN 15% OF THEIR REGULAR EARNINGS

Our analysis revealed that 500 of the City's 6,271 employees worked overtime worth from 15.0% to 67.2% of their regular earnings. These top 500 occurrences of overtime, equivalent to 8% of all employees, represent 40% of the total value of all the overtime worked during 1987. Of these 500 employees, 280 are Police Department uniformed personnel. These 280 employees alone earned 12,513.5 hours of paid overtime worth \$368,987 and 72,463.3 comp-time hours worth \$2,212,345. The total overtime value for these 280 employees in 1987 was \$2,581,330. While these 280 employees comprised only 19% of the Department's 1471 employees, they earned 48.5% of the Department's \$5,322,394 total overtime in 1987.

TABLE III summarizes by department and job class those individual employees who earned 40 percent or more of their base pay in overtime during 1987.

TABLE III

SUMMARY OF THOSE INDIVIDUAL EMPLOYEES
WHO EARNED 40 PERCENT OR MORE
OF THEIR BASE PAY IN OVERTIME DURING 1987

<u>Department</u>	<u>Job Class</u>	<u>Overtime Hours</u>	<u>Comp-Time Hours</u>	<u>Total Overtime Worked</u>	<u>Total Overtime Value</u>	<u>Overtime To Regular Pay Ratio</u>
Library	Security Officer	965.0	0.0	965.0	\$17,519	67.2%
Police	Police Officer	41.1	716.6	757.6	22,882	60.2%
Police	Police Officer	169.5	612.5	782.0	22,919	55.4%
Public Works	Accounting Technician	755.0	0.0	755.0	17,216	52.2%
Traffic Operations	Electrician	249.5	75.0	324.5	9,914	46.5%
Police	Police Officer	52.0	575.4	627.4	18,498	44.7%
Police	Police Officer	56.5	552.3	608.8	17,945	43.4%
Police	Police Officer	53.5	530.9	584.4	17,227	41.7%
Airport	Sr. Security Officer	554.0	40.3	594.3	13,416	41.7%
Police	Police Officer	0.0	576.3	576.3	17,428	41.7%
Traffic Operations	Electrician	435.5	16.0	451.5	13,819	40.9%
Police	Police Officer	0.0	560.1	560.1	16,938	40.0%

Appendix C, following the body of this report, presents by department and job class, the highest 500 individual incurrences of overtime during 1987.

STUDY RESULTS

AT THE END OF 1987
THE CITY'S COMP-TIME
LIABILITY WAS \$6,357,000

At the end of 1987, the City's total comp-time liability was 319,268 hours worth approximately \$6,357,000. TABLE IV summarizes the comp-time balances by department as of the end of 1987.

TABLE IV
SUMMARY OF COMP-TIME BALANCES
BY DEPARTMENT AS OF THE END OF 1987

<u>Department</u>	<u>Comp-Time Balance</u>	<u>Current Value</u>	<u>Percentage of Total</u>
Police	267,402	\$5,517,664	86.8%
Parks and Recreation	8,713	128,325	2.0%
Airport	8,394	116,582	1.8%
Fire	5,657	112,054	1.8%
General Services	6,694	110,059	1.7%
Water Pollution Control Plant	5,115	87,990	1.4%
Public Works	2,423	42,592	0.7%
Neighborhood Preservation	1,930	36,885	0.6%
Finance	2,045	31,790	0.5%
Library	1,637	24,954	0.4%
Traffic Operations	1,192	23,233	0.4%
City Manager	1,467	22,630	0.4%
Other Departments	<u>3,875</u>	<u>60,206</u>	<u>0.9%</u>
CITY TOTAL	<u>\$319,268</u>	<u>\$6,356,716</u>	<u>100.0%</u>

As shown above, the Police Department's comp-time liability represents 86.8% of the total City comp-time balance liability. This liability is the result of the Department's high level of overtime occurrence and the provision in the Police Officers Association's Memorandum of Agreement which allows comp-time to remain "on the books" until taken off or paid off upon termination or retirement. Conversely, other employee Memorandums of Agreement contain a limitation of one year within which the comp-time must be taken. If not taken off within the one year limit, the comp-time is paid off and charged to the respective department's overtime budget.

To illustrate the extent of the difference between comp-time balances of the Police Department uniformed employees and other City employees, at the end of 1987, 134 Police Department employees had comp-time balances exceeding 500 hours, while only one other City employee had a comp-time balance over 500 hours. Of the top 500 employee comp-time balances, 462 were in the Police Department while 38 were in other City departments. At the end of 1987, 32 Police Department employees had comp-time balances of 1,000 or more hours including two employees with more than 2,000 hours.*

Of the ten employees with more than 1,500 hours of comp-time accumulated, four are currently eligible for retirement. Should these four employees retire this year, the City will be

* 2080 hours equals one work year.

required to pay off their accumulated comp-time balances of at least \$155,000. Of the 32 employees with current comp-time balances exceeding 1,000 hours, eight will be eligible for retirement by October 1988. The potential comp-time payoff liability for these eight employees was \$276,306, as of the end of 1987. In our opinion, the Administration should develop information on all potential upcoming retirements to determine the extent of potential comp-time payoffs. This information is necessary in order to accurately estimate future City costs.

Appendix D presents, by department and job class, the highest 500 individual comp-time balances at the end of 1987.

Since the Police Department's overtime represents 52% of the City's total overtime, we will extend our review to address the Department's overtime practices and control procedures. In addition, we will review the Department's budget process for overtime and the impact of comp-time payoffs.

CONCLUSIONS

In 1987, the City incurred over \$10,000,000 worth of overtime of which 52 percent, or \$5,322,394, was attributable to the Police Department. In addition, 500 City employees worked overtime worth from 15.0% to 67.2% of their regular earnings. Further, the City had a comp-time liability of \$6,357,000 at

the end of 1987. Finally, 134 Police Department Department employees had comp-time balances exceeding 500 hours, of which 32 had balances of 1,000 hours or more, including 2 with balances over 2,000 hours. We will extend our review to include various departmental overtime practices and control procedures. We also intend to provide more specific information on the disproportionate distribution of overtime that resulted in employees incurring from 0% to 67% of their regular earnings in overtime. In addition, our subsequent review will address departmental procedural and control issues as they relate to large accumulations of comp-time balances.

RECOMMENDATION

We recommend that the Administration:

Recommendation #1:

Develop information on all potential upcoming retirements to determine the extent of potential comp-time payoffs.

(Priority 3)

Click On The Appropriate Box To View Item

Administrator's Response

Appendix A

Appendix B

Appendix C

Appendix D